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Croatia

Tobacco and Products

Annual Report

2004

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Report Highlights:

Croatian tobacco and cigarette production, imports, and exports are stable. Tobacco imports from the United States have stabilized between 400 and 600 MT per year. One anticipated change that could influence all aspects of tobacco and cigarette production and trade is the acquisition of Trvornica Duhana Rovinj (TDR) by British American Tobacco or Philip Morris. Some Croatian production could move to Yugoslavia as part of the deal. This reports contains adjusted cigarettes and tobacco PS&D tables for 2003 and 2004, as well as PS&D forecasts for 2005.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Vienna [AU1]
[HR]

Production

In 2004, area under tobacco was unofficially reported at about 5000 ha (somewhat smaller than in 2003, however modern production techniques insured almost the same yield). Total imports in 2003 were 4219 MT of which 558 MT came from the United States. Production remains concentrated in the Slavonia region, and in 2004 production is expected to be about 11,700 MT dry weight and for 2005 it is expected to be the same. The two types of tobacco grown are Virginia and Burley. Virginia accounts for between 87-90 percent of acreage, and Burley accounts for between 10-13 percent of acreage. Tobacco processing companies enter into production contracts with 2000 to 2500 farmers annually. The majority of farms are small (averaging four hectares), and only 15 percent are considered "large" and have access to modern production methods. In the past few years, some production technology and expertise has been imported from Italy, including the use of hydroponics for seedlings.

The most important tobacco company in Croatia is Adris group from Rovinj that includes strategic business sections for tourism and tobacco. In the tobacco business section, the Adris group includes The Tobacco Factory (TDR) in Rovinj and Hrvatski duhani, for tobacco production. Hrvatski duhani consists of three of the four Croatian tobacco-producing firms. These three firms are: ex "Rovita" from Kutjevo, ex "Virzinija" from Virovitica, and ex "Duhanprodukt" from Podravina. The fourth tobacco producing company, "Agroduhan" from Slatina, is in theory independent working with TDR, and from 2004 British American Tobacco (BAT). This happened because by the end of 2003 British American Tobacco received a new operating license from the Ministry of Agriculture after three years of futile attempts to start the production.

Production Policy

In the beginning of 2002, the Ministry of Agriculture proposed decreasing state subsidies for several agricultural products including tobacco. The proposal did not pass the Croatian Sabor (Parliament). In 2002, the Croatian Parliament passed new Law on Subsidies in Agriculture (the text can be find at <http://www.nn.hr> in Governmental Gazette NN 87/02, NN 82/2004). This law sets the subsidy level at Kn5/kg (\$0.855/kg) for all tobacco.

Trade

Imports of tobacco from the United States went up from 0 in year 2000 to 558 Mt in year 2003. Market demand and production are stabilizing and the imports are expected to stabilize at present levels. Exports may increase if/when BAT or Philip Morris buys TDR.

In 2003, TDR (Hrvatski Duhani - Croatian Tobaccos) was paying its suppliers an average price of Kn13.5/kg (\$2.01) with state premium of Kn5/kg (\$0.855/kg). Some sources say that this year's price is going to be around 14Kn/Kg (\$ 2.39/kg).

Trade Policy

Tobacco and tobacco products face no quantitative restrictions. Croatia is a member the WTO, EFTA and CEFTA. Croatia is also a candidate country for the European Union. All this helped liberalization of trade. Countries with which Croatia has free trade agreements do in some instance have preferential access for tobacco products.

Free access is allowed to EU for the following: 24021000 (cigars and cigarillos with tobacco); 24039910 (homogenized or reconstructed tobacco), 24039990 (the rest); Macedonia for following: 24013000(tobacco refuse), 24021000(cigars and cigarillos with tobacco), 24029000 (the rest), 24031010 (three rest mfg tobacco in original pck. netto 500g),

24031090 (the rest), 24039910 (homogenized or reconstructed tobacco), 24039990 (the rest); and Bosnia and Herzegovina for all products in tariff range 2401 - 24039990

Tariff rate quotas are given to:

EU

for 2401 TRQ 220 MT (duty in said quota 70% from MFN)

for 240220 and 24029000 TRQ 30 MT (duty in said quota 0, duty outside quota 70% from MFN)

for 240310 TRQ 36 MT (duty in said quota 0, duty outside quota 70% from MFN)

Hungary

for 240110 and 240120 TRQ 116MT (duty in said quota 11.5%)

Macedonia

for 240110 TRQ 2,500MT (duty in said quota 0, duty outside quota 50% from MFN)

for 240220 TRQ 180MT (duty in said quota 0, duty outside quota 50% from MFN)

Tobacco and Cigarette Tariffs for 2004

Tariff item number	DESCRIPTION	Measure unit	Duty rate (%)
2401	Unmanufactured tobacco; tobacco refuse:		
240110	- tobacco, not steamed/stripped:		
24011010	- - - hot air dried tobacco Virginia type	Kg	20
2.40101010	- - - -ex. aromatic	Kg	5
24011020	- - - light colored tobacco, air dried Burley type (including Burley hybrids)	Kg	20
2.401102010	- - - - ex. aromatic	Kg	5
24011030	- - - light colored tobacco, air dried Maryland type	Kg	5
	- - - smoked tobacco:		

			free
24011041	- - - - Kentucky type	Kg	
			5
24011049	- - - - the rest	Kg	
	- - the rest:		
			5
24011050	- - - light color, air dried tobacco	Kg	
			free
24011060	- - - sun dried tobacco, oriental type	Kg	
			5
24011070	- - - dark colored, air dried tobacco	Kg	
			5
24011080	- - - air dried tobacco	Kg	
			20
24011090	- - - the rest tobacco	Kg	
240120	- tobacco, partially or totally stripped:		
			15,6
24012010	- - - Virginia type air dried tobacco	Kg	
2.01201010	- - - - ex. aromatic	Kg	5
			15,6
24012020	- - - Burley type, light colored, air dried tobacco (including Burley hybrids)	Kg	
2401202010	- - - - ex. aromatic	Kg	5
			5
24012030	- - - Maryland type, light colored, air dried	Kg	
	- - - smoked tobacco:		
			free
24012041	- - - - Kentucky type	Kg	
			5
24012049	- - - - the rest	Kg	
	- - the rest:		
			5
24012050	- - - air dried, light colored tobacco	Kg	
			free

24012060	- - - tobacco dried on sun, oriental type	Kg	
			5
24012070	- - - air dried, dark colored	Kg	
	tobacco		
			5
24012080	- - - air dried tobacco	Kg	
			5
24012090	- - - the rest	Kg	
			20
24013000	- tobacco refuse	Kg	
2402	Cigars, cigarillos and cigarette from tobacco and tobacco substitutes:		
			15
24021000	- cigars and cigarillos with tobacco	1 000 kom	
240220	- cigarette with tobacco:		
			38
24022010	- - with content of condiments	1 000 com	
			38
24022090	- - the rest	1 000 com	
			35
24029000	- the rest	Kg	
2403	The rest of mfg. tobacco		
240310	- smoking tobacco	kg	
24031010	- in orig. pck.		36
24031090	- -the rest	kg	36
24039100	- - homogenized or reconstructed	kg	free
240399	- the rest	Kg	20
			20
24039910	--tobacco for chewing ...		
24039990	- the rest	Kg	

Current tariff information can be retrieved at : www.carina.hr.

Cigarette Production

Cigarette production in Tvornica Duhana Rovinj (TDR) in 2003 was 15.5 billion cigarettes from which they exported about 7.5 billion. Production is stabilizing at this level. All cigarettes are filter tipped, and there are many brands in light and ultra light styles.

Croatia's only cigarette producing company in 2003 was TDR (Afris Group) that owns cigarette plants in Rovinj and Zagreb. At the end of 2003, and just before the elections (so they can have votes from Zadar BAT employees), the Ministry of Agriculture (old Government) renewed working license for BAT factory in Zadar. As a result, Croatia has 2 cigarette producing companies, Adris Group's TDR and BAT's company in Zadar at present.

History of the British American Tobacco Case:

TDR tried to buy a plant in Zadar, but in 1999 British American Tobacco bought 81 percent of the Zadar shares. In spite of that, TDR had a monopoly position because the Ministry of Agriculture had not issued a production license for the Zadar factory and had not approved BAT's cigarette brands as being of high enough quality for release onto the market. After four years of struggling with Ministry and TDR, BAT reportedly considered leaving the Croatian market.

TDR in 2002 bought Greenfield sites Vojvodina (Yugoslavia) with the intention of opening a cigarette factory there. Since Yugoslavia is still waiting with their Tobacco Law TDR stopped construction work on the plant. Yugoslavian politicians are more willing to open the market to BAT. Adris Group (TDR) is more and more orientating to purchase of properties in Croatian tourism sector thus BAT and Philip Morris in 2004 bid to buy TDR's cigarette plant in Rovinj. With BAT's or Philip Morris's acquisition of TDR's cigarette plant the legal access to the Yugoslavian market would be instant for the Rovinj plant.

Consumption

Consumption is between 7 - 9 billion cigarettes annually, and in 2002 Croatians spend 2.38 percent of their total annual household consumption on tobacco. Out of a total population of 4.4 million, Croatia has about 1.2- 1.4 million smokers and only 2 percent of smokers quit smoking each year. Cigarettes account for 95 percent of all tobacco consumption, and Light cigarettes are about half of the market.

Nearly 15 percent of consumption is estimated to be supplied by the "black market". Illicit trade is high in part because Croatia has higher prices than surrounding countries, due in part to the structure of the excise tax.

Cigarette retail prices range from Kn9 to Kn19.5 per pack (\$1.54 – 3.34 per pack). Industry sources believe that VAT and excise taxes make up about 75 percent of the retail price of a pack of cigarettes (one in every eight kuna in Governmental budget comes from cigarette sales). Some sources say that TDR is paying 5.5% of the total revenue of Croatian state budget.

One third of sales are via specialized companies with their own wholesale and retail networks. The rest of the market is serviced by wholesalers.

Anti-Smoking Measures

In 2002, Croatian TV started with an antismoking campaign initiated by Ministry of health and sponsored by Croatian TV and the Australian Embassy. The campaign ended by the end of 2002. In November 1999, Croatia implement "The Law on Restricted Use of Tobacco Products" (Official Gazette 128/99). In 2003, Ministry of Education and Sport published a regulation on activities in schools for educating children about damage that tobacco products do to the human health. Antismoking campaigns are always present and they are getting more intensified.

The Law:

- Prohibits smoking at indoor meetings and other working areas except in those which have sign that smoking is allowed
 - Prohibition on selling of cigarettes to persons younger than 18 years
 - Prohibition on selling from automatic machines
 - Prohibition on advertising tobacco and tobacco products
 - Prohibition on smoking in health and education institutions
 - Requirement that all cigarette packs have the health warning:
 - Smoking is harmful to health and one of the following warnings:
 - Smoking causes cancer
 - Smoking during pregnancy is dangerous for children
 - Smoking causes heart attacks and strokes
- Smoking shortens life
- – Nicotine and tar contents per cigarette are also required

In the future Croatia will probably comply tobacco legislation with EU legislation, which will result in strict legislation regarding health hazards caused by smoking.

Trade

Foreign brands make up 15 percent of the legal cigarette supply, and the majority of imports are handled by TDR. In Croatia the cigarette industry pays about Kn 2.4 billion (\$410.5 million) taxes per year.

Trade Policy

See trade policy of Tobacco.

Policy

Two main laws cover tobacco products. The Tobacco law (Governmental Gazette 69/99) and the Law on Excise Taxes For Tobacco Products (Governmental Gazette 136/02 and 95/2004).

According to these two laws, cigarettes are divided into three groups:

- A popular group
- B standard group
- C extra group

- A includes cigarette based on a mixture with at least 60 percent non aromatic, large leaf tobacco (types of Virginia hot air dried, Burly dried in shade) of which at least 25 percent is from lower purchased classes or from their substitutes (tobacco foil or manufactured leaf veins). Cigarettes can be with or without filter and they are packed in soft packs, and are intended primary for the Croatian market.

- B includes cigarettes based on a mixture with at least 60 percent non-aromatic large leaf tobacco (types Virginia, Burley etc.) or their substitutes (tobacco foil or technologically manufactured leaf veins). They are filter tipped and packed in hard packs and are intended primary for the Croatian market.
- C includes all others.

Excise taxes for different groups:

Excise Tax basis is following:

For cigarettes 20 cigarettes in one pck.

For tobacco 1000gr.

For cigars one cigar

For cigarillos 20 cigarillos in pck.

Group A - 5.50 kuna

Group B - 6.40 kuna

Group C - 10.90 kuna

Excise taxes are also paid for:

Tobacco - 38.00 kuna

Cigars - 1.10 kuna

Cigarillos - 4.40 kuna

The above laws also include regulations about the registration of tobacco products, tobacco farmers, tobacco product producers, exporters, importers and the classification and registration of tobacco products.

For the registration of tobacco product, samples are examined and tested (touched, smoked, etc) by a special commission. It is a subjective procedure.

Labeling Requirement

Cigarette box labels must include:

- product name
- nicotine contents
- tar contents
- producer's name and address
- name and address of importer (for imported cigarettes)
- number of pieces in box, written in Croatian language

Exchange rate:

\$1 = Kn 6.701390 (2003 average)

\$1 = Kn 5.846296(11/04/2004)

PSD Table

Country	Croata							
Commodity	Tobacco Unmfg, Total				(HA)(MT)			
	2003 USDA Official [Old]	Revised Post Estimate [New]	2004 USDA Official [Old]	Estimate Post Estimate [New]	2005 USDA Official [Old]	Forecast Post Estimate [New]	UOM	
Market Year Begin	01/2003		01/2004		01/2005		MM/YYYY	
Area Planted	5800	5300	0	5000	0	5000	(HA)	
Beginning Stocks	14705	15661	14329	14526	0	13726	(MT)	
Farm Sales Weight Prod	13282	13560	0	13550	0	13550	(MT)	
Dry Weight Production	11424	11670	0	11700	0	11700	(MT)	
U.S. Leaf Imports	400	558	0	500	0	550	(MT)	
Other Foreign Imports	4200	3661	0	3700	0	4200	(MT)	
TOTAL Imports	4600	4219	0	4200	0	4750	(MT)	
TOTAL SUPPLY	30729	31550	14329	30426	0	30176	(MT)	
Exports	4300	5305	0	5000	0	4500	(MT)	
Dom. Leaf Consumption	7500	7500	0	7500	0	7500	(MT)	
U.S. Leaf Dom. Consum.	400	558	0	500	0	550	(MT)	
Other Foreign Consump.	4200	3661	0	3700	0	4200	(MT)	
TOTAL Dom. Consumption	12100	11719	0	11700	0	12250	(MT)	
TOTAL Disappearance	16400	17024	0	16700	0	16750	(MT)	
Ending Stocks	14329	14526	0	13726	0	13426	(MT)	
TOTAL DISTRIBUTION	30729	31550	0	30426	0	30176	(MT)	
	-	-	-14329	-	-	-		

Import Trade Matrix

Country	Croatia
Commodity	Tobacco, Unmfg., Total
Time Period	2002
Imports for:	
U.S.	487
Others	
Serbia & Montenegro	1233
Malawi	983
Brazil	839
Zimbabwe	733
Total for Others	3788
Others not Listed	368
Grand Total	4643

Units:	2003
1	
U.S.	558
Others	
Malawi	1029
Brazil	952
Macedonia	751
Zimbabwe	459
Total for Others	3191
	470
	4219

Export Trade Matrix

Country	Croatia
Commodity	Tobacco, Unmfg., Total
Time Period	2002
Exports for:	
U.S.	20
Others	
South Afr. Republic	1030
France	943
Serbia and Monte negro	600
Egypt	478
Italy	432
Lebanon	330
Greece	248
Bosnia & Herzegovina	206
Total for Others	4267
Others not Listed	127
Grand Total	4414

Units:	2003
1	
U.S.	326
Others	
France	1011
South Afr. Republic	693
Paraguay	566
Ukraine	504
Austria	475
Bosnia & Herzegovina	346
Belgium	327
Belarus	281
Total for Others	4203
	776
	5305

PSD Table

Country	Croatia		Cigarettes		(MIL PCS)		UOM
Commodity	Tobacco, Mfg.,						
	2003 USDA Official [Old]	Revised Post Estimate [New] 01/2003	2004 USDA Official [Old]	Estimate Post Estimate [New] 01/2004	2005 USDA Official [Old]	Forecast Post Estimate [New] 01/2005	MM/YYYY
Market Year Begin							
Filter Production	14700	14700	15050	15050	0	15050	(MIL PCS)
Non-Filter Production	0	0	0	0	0	0	(MIL PCS)
TOTAL Production	14700	14700	15050	15050	0	15050	(MIL PCS)
Imports	26	49	20	40	0	40	(MIL PCS)
TOTAL SUPPLY	14726	14749	15070	15090	0	15090	(MIL PCS)
Exports	6978	7478	7000	7450	0	7400	(MIL PCS)
Domestic Consumption	7748	7271	8070	7640	0	7690	(MIL PCS)
TOTAL DISTRIBUTION	14726	14749	15070	15090	0	15090	(MIL PCS)

Import Trade Matrix

Country	Croatia		
Commodity	Tobacco, Mfg., Cigarettes		
Time Period	2002	Units:	
Imports for:			1
U.S.	0	U.S.	0
Others		Others	
United Kingdom	11	Germany	21
Switzerland	11	Switzerland	16
Germany	5	United Kingdom	12
Total for Others	27		49
Others not Listed	0		0
Grand Total	27		49

Export Trade Matrix

Country	Croatia		
Commodity	Tobacco, Mfg., Cigarettes		
Time Period	2002	Units:	2003
Exports for:			1
U.S.	9	U.S.	0
Others		Others	
Bosnia & Herzegovina	4476	Bosnia&Herzegovina	3882
Serbia & Montenegro	2300	Serbia&Montenegro	1986
Romania	231	Romania	921
Slovenia	219	Slovenia	240
Total for Others	7226		7029
Others not Listed	153		449
Grand Total	7388		7478

End of report.